

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Hartford Fire Board</u>	County Van Buren
Audit Date June 30, 2004	Opinion Date September 13, 2004	Date Accountant Report Submitted To State: November 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

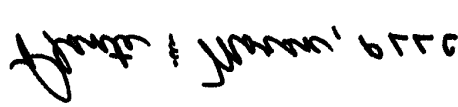
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **Hartford Fire Board**

## **Van Buren County, Michigan**

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### **Financial Report**

**June 30, 2004**

# Hartford Fire Board

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## Independent Auditor's Report

To The Board  
Hartford Fire Board

We have audited the accompanying basic financial statements of the Hartford Fire Board as of and for the year ended June 30, 2004, as listed in the table of contents. These basic financial statements are the responsibility of the Fire Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Hartford Fire Board, as of June 30, 2004, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Hartford Fire Board has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basis financial statements.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Hartford Fire Board. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1 to the financial statements, the Hartford Fire Board adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, as of July 1, 2003.

*Plante & Moran, PLLC*

September 13, 2004

# Hartford Fire Board

## Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2004

	<u>General Fund</u>	<u>Adjustments (Note 2)</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents (Note 3)	<u>\$ 284,997</u>	<u>\$ -</u>	<u>\$ 284,997</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 7,533	\$ -	\$ 7,533
Accrued liabilities	2,601	-	2,601
Long-term debt (Note 4)	<u>-</u>	<u>13,862</u>	<u>13,862</u>
Total liabilities	10,134	13,862	23,996
<b>Fund Balance</b>			
Reserved for debt service	13,957	(13,957)	-
Unreserved:			
Designated (Note 5)	76,337	(76,337)	-
Undesignated	<u>184,569</u>	<u>(184,569)</u>	<u>-</u>
Total fund balance	<u>274,863</u>	<u>(274,863)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 284,997</u>	(261,001)	23,996
<b>Net Assets</b>			
Restricted for debt service		13,862	13,862
Unrestricted		<u>247,139</u>	<u>247,139</u>
Total net assets		<u>\$ 261,001</u>	<u>\$ 261,001</u>

# Hartford Fire Board

## Statement of Governmental Fund Revenue, Expenditures and Changes in Fund Balance/Statement of Net Assets Year Ended June 30, 2004

	General Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenue</b>			
Hartford Township	\$ 80,442	\$ -	\$ 80,442
City of Hartford	55,294	-	55,294
Other Townships	1,214	-	1,214
Interest	2,188	-	2,188
Miscellaneous	1,543	-	1,543
Total revenue	140,681	-	140,681
<b>Expenditures</b>			
Labor	37,157	-	37,157
Supplies	3,978	-	3,978
Insurance, legal and audit	25,395	-	25,395
Telephone	2,373	-	2,373
Public education	39	-	39
Utilities	6,284	-	6,284
Repairs and maintenance	21,285	-	21,285
Capital expenditures	16,698	-	16,698
Debt service principal	70,106	(70,106)	-
Debt service interest	2,457	-	2,457
Training and dues	3,798	-	3,798
Uncollected property taxes	3,748	-	3,748
Total expenditures	193,318	(70,106)	123,212
<b>Revenue Over (Under) Expenditures</b>	(52,637)	70,106	17,469
<b>Fund Balance/Net Assets</b> - Beginning of year, as restated	327,500	(83,968)	243,532
<b>Fund Balance/Net Assets</b> - End of year	<u>\$ 274,863</u>	<u>\$ (13,862)</u>	<u>\$ 261,001</u>

### Note 1 – Nature of Organization and Summary of Significant Accounting Policies

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Accordingly, there are no component units to be included in the Fire Board's financial report.

The Fire Board is a joint venture between the City of Hartford and Hartford Township and is governed by an appointed five-member board. The Fire Board's operating expenses are subsidized annually as follows: 40 percent City and 60 percent Township.

The accounting policies of the Fire Board conform to accounting principles generally accepted in the United States of America, as applicable to governmental units. The following is a summary of the significant accounting policies:

Effective July 1, 2003, the Hartford Fire Board implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Significant changes, as prescribed by the Statement include the following:

- The financial statements have been prepared using full accrual accounting for all of the Fire Board's activities.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The Fire Board's basic financial statements include both government-wide (reporting the Fire Board as a whole) and fund financial statements (reporting the Fire Board's major fund).

#### **Government-wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

### **Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)**

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Fire Board's net assets are reported in two parts: restricted for debt service and unrestricted net assets.

#### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Fire Board.

The Fire Board reports only one major fund – the General Fund.

#### **Assets, Liabilities, and Net Assets**

**Bank Deposits and Investments** - The Fire Board considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

**Capital Assets** - Capital assets are the property of the respective governmental units of the Fire Board and are accounted for in their financial statements.

**Long-term Obligations** - In the government-wide financial statements, long-term debt is reported as a liability in the General Fund. In the fund financial statements, the face amount of debt issued is reported as other financing sources.



# Hartford Fire Board

## Notes to Financial Statements June 30, 2004

### Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Fire Board's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the economic focus of the statement of the governmental fund balance sheet and statement of revenue, expenditures, and changes in fund balances. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

<b>Governmental Fund - Fund Balance</b>	\$ 274,863
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Amounts reported in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(13,862)</u>
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<b>Government-Wide Net Assets</b>	<u>\$ 261,001</u>
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<b>Net Change in Fund Balance - Governmental Fund</b>	\$ (52,637)
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Repayment of debt principal is an expenditure in the governmental fund, but not in the statement of activities (where it reduces long-term debt)	<u>70,106</u>
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<b>Change in Net Asset of Governmental Activities</b>	<u>\$ 17,469</u>
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# Hartford Fire Board

## Notes to Financial Statements June 30, 2004

### Note 3 – Deposits and Investments

The Fire Board's deposits are included on the balance sheet under the classification of cash and cash equivalents at a carrying amount of \$284,997.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$296,563. Of that amount, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Fire Board believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Fire Board evaluates each financial institution it deposits Fire Board funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 – Long-Term Debt

#### Outstanding Debt

The long-term debt of the Fire Board consists of two notes payable with outstanding principal totaling \$13,862 at June 30, 2004. The notes bear interest at the rate of 4.65 percent and mature in 2005.

**Changes In Long-term Debt** - The following is a summary of long-term debt transactions of the Fire Board for the year ended June 30, 2004:

<b>Balance</b> - July 1, 2003	\$ 83,968
Debt retired	<u>(70,106)</u>

<b>Balance</b> - June 30, 2004	<u>\$ 13,862</u>
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**Debt Service Requirements** - The annual requirements to service all debt outstanding through governmental fund resources as of June 30, 2004, including both principal and interest are as follows:

2005	<u>\$ 13,957</u>
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**Interest** - Total interest incurred by the Fire Board for the year was \$2,457.

# Hartford Fire Board

## Notes to Financial Statements June 30, 2004

### Note 5 – Designated Fund Balance

The Fire Board has designated \$76,337 for the future refurbishing of an aerial truck.

### Note 6 – Risk Management

The Fire Board is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). The Fire Board has purchased commercial insurance for claims relating to the above risks.

### Note 7 – Budget Information

The annual budget is prepared by the Fire Board management and presented to the City of Hartford and Hartford Township for approval; subsequent amendments are approved by the Fire Board. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget statement (budgetary comparison schedule – general fund) is presented on the same basis of accounting used in preparing the adopted budget.

The expenditure budget has been adopted on a line item basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of actual results of operations to the General Fund budget as adopted by the City and Township is included in the required supplementary information

## Required Supplementary Information

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# Hartford Fire Board

## Required Supplementary Information Budgetary Comparison Schedule – General Fund Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenue</b>				
Hartford Township	\$	\$	\$ 80,442	\$
City of Hartford			55,294	
Other Townships			1,214	
Interest			2,188	
Miscellaneous			1,543	
Total revenue	198,299	198,299	140,681	(57,618)
<b>Expenditures</b>				
Labor	42,962	40,362	37,157	3,205
Supplies	4,443	4,443	3,978	465
Insurance, legal and audit	23,826	25,426	25,395	31
Telephone	2,593	2,593	2,373	220
Public education	1,401	1,401	39	1,362
Utilities	8,199	7,099	6,284	815
Repairs and maintenance	15,296	11,996	21,285	(9,289)
Capital expenditures	22,417	27,817	16,698	11,119
Debt payments	72,563	72,563	72,563	-
Training and dues	4,599	4,599	3,798	801
Uncollected property taxes	-	-	3,748	(3,748)
Total expenditures	198,299	198,299	193,318	4,981
<b>Deficiency of Revenue Over Expenditures</b>	-	-	(52,637)	(52,637)
<b>Fund Balance - Beginning of year</b>	327,500	327,500	327,500	-
<b>Fund Balance - End of year</b>	<b>\$ 327,500</b>	<b>\$ 327,500</b>	<b>\$ 274,863</b>	<b>\$ -</b>



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To the Board  
Hartford Fire Board  
Hartford, Michigan

In planning and performing our audit of the financial statements of the Hartford Fire Board for the year ended June 30, 2004, we considered the Fire Board's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Fire Board's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

## **SEGREGATION OF DUTIES**

Control over cash transactions is limited because of insufficient segregation of duties due to limited personnel. Management feels adequate segregation of duties is not practical because hiring additional personnel is not warranted from a cost-benefit standpoint.

## **ACH POLICY**

Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

Beginning immediately, a local unit's governing body needs to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
  1. describe the goods or services purchased,
  2. the cost,
  3. date of payment, and
  4. the department benefiting from the purchase;

## ACH POLICY (Continued)

A system of internal controls to monitor the use of ACH transactions; and the approval of invoices before payment. While, the Fire Board is not currently utilizing these types of transactions, it may be required to do so in the future for payroll taxes or other types of remittances. We suggest that the Fire Board adopt a policy now to cover any future use of ACH transactions.

## CREDIT CARD POLICY

Another policy that the Fire Board may want to consider adopting for future use is a credit card policy. While the Fire Board does not currently have or use any credit cards, this option may be exercised in the future if a policy is properly adopted.

## BUDGET

It is required by the State of Michigan that all governmental entities adopt a budget in compliance with P.A. 621. To comply with this act, the following step should be taken in the future:

- The format should also include information on actual and estimated amounts from the prior two years.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

This report is intended solely for the information and use of the management, and others within the organization.

*Plante & Moran, PLLC*

September 13, 2004